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NO. 6 OF OCTOBER 4, 2016](#)



# County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, California 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA  
Chief Executive Officer

July 1, 2014

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

## **STATUS REPORT – AUDIT OF WORKERS' COMPENSATION THIRD-PARTY ADMINISTRATION SERVICES**

On October 22, 2013, the Board approved a recommendation to find that workers' compensation claims third-party administration (TPA) services can be performed more economically by independent contractors. At that time, the Board instructed the Chief Executive Officer (CEO) to incorporate audit criteria which includes any known criminal activity, negligence, and overall contract compliance when evaluating TPA performance. This is the first bi-annual report on existing TPA performance.

### **Background**

The County of Los Angeles (County) Workers' Compensation Program (Program) was established under the authority of County Code Section 5.31.050. A Program mandate is to ensure the full provision of benefits under the law to employees whose injuries arise out of, and in the course of, employment. This Program is the largest local agency workers' compensation program in the State of California, which issues approximately 500,000 payment request transactions annually. This Program is bound by a complex set of statutory, regulatory, and case law requirements that complicate claims administration and present inherent system risks.

A variety of quality control mechanisms are implemented to evaluate TPA performance, protect the County from improper payments initiated by TPA staff, and ensure adequate separation of duties. Current TPA contracts require contractors to engage an independent public accounting firm to perform at least a Statement of Auditing Standards No. 70 (Type II) audit. Payment transaction system functions are separated to require at least two individuals to release a payment transaction.

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The following approval levels are required for workers' compensation benefit payment transactions:

- Payments up to \$4,000 require one authorization and a separate individual to release the transaction;
- Payments exceeding \$4,000 require two authorizations and a separate individual to release the transaction;
- Payments exceeding \$5,000 require three authorizations and a separate individual to release the transaction;
- Payments exceeding \$7,500 require four authorizations and a separate individual to release the transaction; and
- Payments exceeding \$75,000 require four authorizations and a separate individual to release the transaction.

#### **On-Site County Representatives**

Currently, five On-Site County Representatives (OSCRs) are headquartered at TPA facilities. These County employees perform various functions. Their payment transaction audit and review functions include the following:

- Reviewing and authorizing payment transaction requests exceeding \$7,500;
- Evaluating and authorizing payment transaction requests initiated by a Workers' Compensation Appeals Board (WCAB) order or award;
- Performing fiscal reconciliation of all claims resolved by WCAB indemnity order, WCAB indemnity award, or indemnity payment request exceeding \$7,500;
- Identifying and recovering costs associated with penalties, excess costs, or overpayments caused by the contractors' actions or failures to act as defined in the contract; and
- Identifying and investigating payment transactions that are potentially fraudulent, and notifying the CEO Risk Management Branch when such are identified.

Additional OSCRs' responsibilities include:

- Providing subject matter expertise to County departments and injured workers to expedite the equitable resolution of workers' compensation benefit issues and control costs consistent with the provision of workers' compensation benefits allowable under the law;

Additional OSCRs' responsibilities include (Continued)

- Attending regularly scheduled department claim reviews to minimize County departments' exposure to workers' compensation and disability management liabilities;
- Assisting County Counsel and contracted law firms obtain information needed to properly defend litigated workers' compensation claims; and
- Analyzing and approving workers' compensation settlements or stipulations consistent with the negotiation levels established in the workers' compensation TPA contracts.

Since January 1, 2014, OSCRs reviewed approximately 313 payment request transactions per month exceeding \$7,500. Additionally, the OSCRs reviewed 740 payment transactions per month generated by a WCAB order or award. Many of these transactions required a claim file fiscal reconciliation.

**Fiscal Reconciliation Process**

The fiscal reconciliation process, or claim file balancing, requires the OSCRs to evaluate the workers' compensation awards or orders, and ensure the past, present, and future benefit stream comports to the Court awards/orders. This process requires a careful review of indemnity benefits owed and paid, benefits currently being paid, and payments that will be issued in the future ("cycled" or system-generated payments). The reconciliation process includes calculating savings caused by an ordered commutation of benefits. Workers' compensation claim files that do not balance are returned to the TPA for correction or reimbursement.

Since the fiscal reconciliation process evaluates the indemnity benefit stream, it allows OSCRs to review many payments without approving all the individual payments issued on a particular workers' compensation claim. An analysis of fully-developed claims (FY1994-95) demonstrated that 90 percent of all indemnity payment transactions and 89 percent of all indemnity paid amounts issued on workers' compensation claims had a Court award or order. Therefore, the fiscal reconciliation process allows a relatively small number of County employees to assess a large number of workers' compensation indemnity payments, ensuring the accuracy of such payments.

**Random Transaction Audit**

The purpose of the random transaction audit is to select and review individual payment transactions that may be split (to circumvent payment authority levels) or represent duplicate payments (payments issued to the same payee with overlapping service dates) to ensure payment process controls are being systematically applied, the individual payment is appropriate (not split or a duplicate payment caused by the inappropriate application of a "T" override), and identify that potential fraud or abuse is executed by TPA staff.

### **Methodology**

During this reporting period, CEO Risk Management Branch staff randomly selected 200 payment transactions from a sample of 3,342 transactions that required a "T" override. The "T" override is manually applied to payment transactions that the workers' compensation claims management system will not release because of potential duplication. Once the "T" override is applied, the payment transaction is released. Such payment transactions represent the population most likely to be the result of inappropriately splitting a payment or creating a duplicate payment. Each payment transaction is audited to evaluate compliance with established protocols, unintended excess cost to the County, or TPA fraud. During the audit, CEO Risk Management Branch staff reviewed payment transactions to determine the following:

- The payment transaction was appropriate and did not result in a duplicate payment;
- The payment transaction was appropriate and did not result in the splitting of the payment to circumvent authority levels;
- The amount of the duplicate payment and potential excess cost to the County;
- The payment transaction required a "T" override;
- That established authority levels are obeyed;
- That payment transaction supporting documentation demonstrates appropriate segregation of duties; and
- Whether the payment transaction was issued as a result of potential fraud.

### **Findings**

Summary of audit findings:

Transactions Audited	200
Total Paid	\$181,452.80
Split Payments Identified	0
Duplicate Transactions Identified	4
Amount of Duplicate Payments	\$2,465.71
Transactions Not Requiring "T" Release	17
Transactions Potentially Lacking Appropriate Authority Level	1
Transactions Potentially Lacking Appropriate Segregation of Duties	1
Transactions Identifying Potential Fraud	0

The largest duplicate payment was for \$1,491.04, which is a temporary disability payment to an injured worker. This potential overpayment was identified by the TPA prior to CEO Risk Management Branch staff presenting the audit findings to TPA management. The period of temporary disability is still in dispute and will be addressed in further Court proceedings. The County can assert the overpayment, if appropriate, as permanent disability at the time of settlement. The second largest duplicate payment, in the amount of \$500.00, was issued to a physician as a deposition fee. The physician's office returned the duplicate payment prior to the audit. A third duplicate payment was issued to a transportation company in the amount of \$444.67. In the event the TPA is unable to recover the overpayment, the TPA will reimburse the County in the amount of \$444.67. The final duplicate payment was for \$30.00 and issued to the pharmacy benefit management company, which will be reimbursed.

The CEO Risk Management Branch staff identified one payment transaction in the amount of \$40.62, where supporting documentation could not be located, demonstrating authority level compliance. It was noted that the billed amount of \$200.00 was appropriately submitted to the bill review vendor and reduced to the \$40.62 paid amount. A second payment transaction reflected the final operator as a claims assistant and not the appropriate payment release personnel. This has been discussed with TPA management.

### **SUMMARY**

Even though the audit did not identify any fraud or abuse, it did find that TPA staff are applying "T" overrides on transactions that do not require them. CEO Risk Management Branch staff found 8.5 percent of the payment transactions audited did not require "T" overrides. This practice, done to expedite benefit delivery, weakens internal controls and may result in duplicate payments and unwarranted costs. TPA management has been notified of these findings.

The CEO is committed to reducing Program fraud exposure through the continuous improvement of processes. A multi-disciplined approach that includes TPA management and the evaluation of new technologies is required. CEO Risk Management Branch staff will be meeting quarterly with TPA management to identify improvements in business process monitoring with due consideration given to benefit delivery needs.

The CEO will provide another audit report to the Board in January 2015.

If you have any questions or would like additional information, your staff may contact Steven T. Robles, Assistant Chief Executive Officer/County Risk Manager, at (213) 351-5346.

WTF:BC  
STR:AR:sg

c: Executive Office, Board of Supervisors  
County Counsel



SACHI A. HAMAI  
Interim Chief Executive Officer

## County of Los Angeles CHIEF EXECUTIVE OFFICE

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January 2, 2015

To: Mayor Michael D. Antonovich  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

From: Sachi A. Hamai  
Interim Chief Executive Officer

Board of Supervisors  
HILDA L. SOLIS  
First District

MARK RIDLEY-THOMAS  
Second District

SHEILA KUEHL  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
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### **STATUS REPORT – AUDIT OF WORKERS' COMPENSATION THIRD-PARTY ADMINISTRATION SERVICES**

On October 22, 2013, the Board approved a recommendation to find that workers' compensation claims third-party administration (TPA) services can be performed more economically by independent contractors. At that time, the Board instructed the Chief Executive Officer (CEO) to incorporate audit criteria which includes any known criminal activity, negligence, and overall contract compliance when evaluating TPA performance. This is the second bi-annual report on existing TPA performance.

#### **Background**

The County of Los Angeles (County) Workers' Compensation Program (Program) was established under the authority of County Code Section 5.31.050. A Program mandate is to ensure the full provision of benefits under the law to employees whose injuries arise out of, and in the course of, employment. The Program is the largest local agency workers' compensation program in the State of California, which issues approximately 500,000 payment request transactions annually. The Program is bound by a complex set of statutory, regulatory, and case law requirements that complicate claims administration and present inherent system risks.

A variety of quality control mechanisms are implemented to evaluate TPA performance, protect the County from improper payments initiated by TPA staff, and ensure adequate separation of duties. Payment transaction system functions are separated to require at least two individuals to release a payment transaction. Approval levels require at least two authorized individuals to release a workers' compensation payment transaction.

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### Background (Continued)

Generally, the following authorization requirements apply to workers' compensation benefit payment transactions:

- Payments up to \$4,000 require one authorization and a separate individual to release the transaction;
- Payments exceeding \$4,000 require two authorizations and a separate individual to release the transaction;
- Payments exceeding \$5,000 require three authorizations and a separate individual to release the transaction;
- Payments exceeding \$7,500 require four authorizations and a separate individual to release the transaction; and
- Payments exceeding \$75,000 require five authorizations and a separate individual to release the transaction.

### On-Site County Representatives

Currently, five On-Site County Representatives (OSCRs) are headquartered at TPA facilities. These County employees perform various functions. Their payment transaction audit and review functions include the following:

- Reviewing and authorizing payment transaction requests exceeding \$7,500;
- Evaluating and authorizing payment transaction requests initiated by a Workers' Compensation Appeals Board (WCAB) order or award;
- Performing fiscal reconciliation of all claims resolved by WCAB indemnity order, WCAB indemnity award, or indemnity payment requests exceeding \$7,500;
- Identifying and recovering costs associated with penalties, excess costs, or overpayments caused by the contractor's actions or failures to act as defined in the contract; and
- Identifying and investigating payment transactions that are potentially fraudulent and notifying CEO Risk Management Branch when such are identified.



On-Site County Representatives (Continued)

Additional OSCR responsibilities include:

- Providing subject matter expertise to County departments and injured workers to expedite the equitable resolution of workers' compensation benefit issues and control costs consistent with the provision of workers' compensation benefits allowable under the law;
- Attending regularly scheduled department claim reviews to minimize County department exposure to workers' compensation and disability management liabilities;
- Assisting County Counsel and contract law firms in obtaining information needed to properly defend litigated workers' compensation claims; and
- Analyzing and approving workers' compensation settlements or stipulations consistent with the negotiation levels established in the workers' compensation TPA contracts.

Since July 1, 2014, OSCRs reviewed 363 payment request transactions exceeding \$7,500 per month. Additionally, the OSCRs reviewed approximately 890 payment transactions generated by a WCAB order or award per month. Many of those transactions required a claim file fiscal reconciliation.

**Fiscal Reconciliation Process**

The fiscal reconciliation process, or claim file balancing, requires the OSCR to evaluate the workers' compensation award or order and ensure the past, present, and future benefit stream comports to the Court award or order. This process requires a careful review of indemnity benefits owed and paid, benefits currently being paid, and payments that will be issued in the future ("cycled" or system-generated payments). The reconciliation process includes calculating savings caused by an ordered commutation of benefits. Workers' compensation claim files that do not balance are returned to the TPA for correction or reimbursement.

Since the fiscal reconciliation process evaluates the indemnity benefit stream, it allows OSCRs to review many payments without approving all the individual payments issued on a particular workers' compensation claim. An analysis of fully developed claims (FY1994-95) demonstrated that 90 percent of all indemnity payment transactions and 89 percent of all indemnity paid amounts issued on workers' compensation claims had a Court award or order. Therefore, the fiscal reconciliation process allows a relatively small number of County employees to assess a large number of workers' compensation indemnity payments, ensuring the accuracy of such payments.

### **Random Transaction Audit**

The purpose of the random transaction audit is to select and review individual payment transactions that may be split (to circumvent payment authority levels) or represent duplicate payments (payments issued to the same payee with overlapping service dates) to ensure payment process controls are being systematically applied, ensure the individual payment is appropriate (not split or a duplicate payment caused by the inappropriate application of a "T" override), and identify potential fraud or abuse executed by TPA staff.

### **Methodology**

During this reporting period, CEO Risk Management Branch staff randomly selected 200 payment transactions from a sample of 2,988 transactions that required a "T" override. The "T" override is manually applied to payment transactions that the workers' compensation claims management system will not release because of potential duplication. Once the "T" override is applied, the payment transaction is released. Such payment transactions represent the population most likely to be the result of inappropriately splitting a payment or creating a duplicate payment. Each payment transaction is audited to evaluate compliance with established protocols, unintended excess cost to the County, or TPA fraud. During the audit, CEO Risk Management Branch staff reviewed payment transactions to determine the following:

- The payment transaction was appropriate and did not result in a duplicate payment;
- The payment transaction was appropriate and did not result in the splitting of the payment to circumvent authority levels;
- The amount of the duplicate payment and potential excess cost to the County;
- The payment transaction required a "T" override;
- The payment is approved in compliance with established authority levels;
- That payment transaction supporting documentation demonstrates appropriate segregation of duties; and
- Whether the payment transaction was issued as a result of potential fraud.

## **Findings**

The audit findings are summarized below:

Transactions Audited	200
Total Paid	\$176,449.24
Split Payments Identified	0
Duplicate Transactions Identified	3
Amount of Duplicate Payments	\$512.52
Transactions Not Requiring "T" Release	22
Transactions Potentially Lacking Appropriate Authority Level	0
Transactions Potentially Lacking Appropriate Segregation of Duties	0
Transactions Identifying Potential Fraud	0

The largest duplicate payment was for \$450.36. It is a payment issued to a photocopy service. This overpayment was caused by the same invoice being processed twice. Though the system identified the duplicate, TPA staff applied a manual release causing the duplicate payment. The TPA has been notified and will either recover the overpayment from the photocopy company or reimburse the County. The second largest duplicate payment, in the amount of \$48.24, was issued to a medical provider. That payment was caused because the same medical charges were processed on a companion workers' compensation claim file. Though the system identified the potential duplicate, TPA staff applied a manual release causing a duplicate payment. The TPA has been notified and will either recover the overpayment from the medical provider or reimburse the County. The final duplicate payment was for \$13.92. This duplicate payment was caused by paying the injured worker an overlapping and previously paid day of mileage reimbursement. The TPA has been notified and will either offset future medical mileage reimbursement payments to the injured worker or reimburse the County.

## **SUMMARY**

Though the audit did not identify any fraud or abuse, it did find that TPA staff are applying "T" overrides on transactions that do not require them. CEO Risk Management Branch staff found 11 percent of the payment transactions audited did not require "T" overrides. This practice, done to expedite benefit delivery, weakens internal controls and may result in duplicate payments and unwarranted costs. TPA management has been notified of these findings and will provide additional training to staff.

The CEO is committed to reducing Program fraud exposure through the continuous improvement of processes. A multi-disciplined approach that includes TPA management and the evaluation of new technologies is required. CEO staff will be meeting quarterly with TPA management to identify improvements in business process monitoring with due consideration given to benefit delivery needs.

Each Supervisor  
January 2, 2015  
Page 6

The CEO will provide another audit report to the Board on July 22, 2015.

If you have any questions or would like additional information, your staff may contact Steven T. Robles, Assistant Chief Executive Officer/County Risk Manager, at (213) 351-5346.

SAH:BC  
STR:AR:rn

c: Executive Office, Board of Supervisors  
County Counsel



SACHI A. HAMAI  
Interim Chief Executive Officer

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First District

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MICHAEL D. ANTONOVICH  
Fifth District

July 21, 2015

To: Mayor Michael D. Antonovich  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

From: Sachi A. Hamai  
Interim Chief Executive Officer

### **STATUS REPORT – AUDIT OF WORKERS' COMPENSATION THIRD-PARTY ADMINISTRATION SERVICES**

On October 22, 2013, the Board approved a recommendation to find that workers' compensation claims third-party administration (TPA) services can be performed more economically by independent contractors. At that time, the Board instructed the Chief Executive Officer (CEO) to incorporate audit criteria which includes any known criminal activity, negligence, and overall contract compliance when evaluating TPA performance. This is the third bi-annual report on existing TPA performance.

#### **Background**

The County of Los Angeles (County) Workers' Compensation Program (Program) was established under the authority of County Code Section 5.31.050. A Program mandate is to ensure the full provision of benefits under the law to employees whose injuries arise out of, and in the course of, employment. The Program is the largest local agency workers' compensation program in the State of California, which issues approximately 500,000 payment request transactions annually. The Program is bound by a complex set of statutory, regulatory, and case law requirements that complicate claims administration and present inherent system risks.

A variety of quality control mechanisms are implemented to evaluate TPA performance, protect the County from improper payments initiated by TPA staff, and ensure adequate separation of duties. Payment transaction system functions are separated to require at least two individuals to release a payment transaction. Approval levels require at least two authorized individuals to release a workers' compensation payment transaction.

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### Background (Continued)

Generally, the following authorization requirements apply to workers' compensation benefit payment transactions:

- Payments up to \$4,000 require one authorization and a separate individual to release the transaction;
- Payments exceeding \$4,000 require two authorizations and a separate individual to release the transaction;
- Payments exceeding \$5,000 require three authorizations and a separate individual to release the transaction;
- Payments exceeding \$7,500 require four authorizations and a separate individual to release the transaction; and
- Payments exceeding \$75,000 require five authorizations and a separate individual to release the transaction.

### On-Site County Representatives

Currently, six On-Site County Representatives (OSCRs) are headquartered at TPA facilities. These County employees perform various functions. Their payment transaction audit and review functions include the following:

- Reviewing and authorizing payment transaction requests exceeding \$7,500;
- Evaluating and authorizing payment transaction requests initiated by a Workers' Compensation Appeals Board (WCAB) order or award;
- Performing fiscal reconciliation of all claims resolved by WCAB indemnity order, WCAB indemnity award, or indemnity payment requests exceeding \$7,500;
- Identifying and recovering costs associated with penalties, excess costs, or overpayments caused by the contractor's actions or failures to act as defined in the contract; and
- Identifying and investigating payment transactions that are potentially fraudulent and notifying CEO Risk Management Branch when such are identified.

On-Site County Representatives (Continued)

Additional OSCRs' responsibilities include:

- Providing subject matter expertise to County departments and injured workers to expedite the equitable resolution of workers' compensation benefit issues and control costs consistent with the provision of workers' compensation benefits allowable under the law;
- Attending regularly scheduled department claim reviews to minimize County departments' exposure to workers' compensation and disability management liabilities;
- Assisting County Counsel and contract law firms obtain information needed to properly defend litigated workers' compensation claims; and
- Analyzing and approving workers' compensation settlements or stipulations consistent with the negotiation levels established in the workers' compensation TPA contracts.

Since January 1, 2015, OSCRs reviewed approximately 450 payment request transactions exceeding \$7,500 per month. Additionally, the OSCRs reviewed approximately 850 payment transactions generated by a WCAB order or award per month. Over 60 percent of those transactions required a claim file fiscal reconciliation.

**Fiscal Reconciliation Process**

The fiscal reconciliation process, or claim file balancing, requires the OSCRs to evaluate the workers' compensation award or order and ensure the past, present, and future benefit stream comports to the Court award or order. This process requires a careful review of indemnity benefits owed and paid, benefits currently being paid, and payments that will be issued in the future ("cycled" or system-generated payments). The reconciliation process includes calculating savings caused by an ordered commutation of benefits. Workers' compensation claim files that do not balance are returned to the TPA for correction or reimbursement.

Since the fiscal reconciliation process evaluates the indemnity benefit stream, it allows OSCRs to review many payments without approving all the individual payments issued on a particular workers' compensation claim. An analysis of fully developed claims (FY1994-95) demonstrated that 90 percent of all indemnity payment transactions and 89 percent of all indemnity paid amounts issued on workers' compensation claims had a Court award or order. Therefore, the fiscal reconciliation process allows a relatively small number of County employees to assess a large number of workers' compensation indemnity payments, ensuring the accuracy of such payments.

### **Random Transaction Audit**

The purpose of the random transaction audit is to select and review individual payment transactions that may be split (to circumvent payment authority levels) or represent duplicate payments (payments issued to the same payee with overlapping service dates) to ensure payment process controls are being systematically applied, ensure the individual payment is appropriate (not split or a duplicate payment caused by the inappropriate application of a "T" override), and identify potential fraud or abuse executed by TPA staff.

### **Methodology**

During this reporting period, CEO Risk Management Branch staff randomly selected 200 payment transactions from a sample of 3,150 transactions that required a "T" override. The "T" override is manually applied to payment transactions that the workers' compensation claims management system will not release because of potential duplication. Once the "T" override is applied, the payment transaction is released. Such payment transactions represent the population most likely to be the result of inappropriately splitting a payment or creating a duplicate payment. Each payment transaction is audited to evaluate compliance with established protocols, unintended excess cost to the County, or TPA fraud. During the audit, CEO Risk Management Branch staff reviewed payment transactions to determine the following:

- The payment transaction was appropriate and did not result in a duplicate payment;
- The payment transaction was appropriate and did not result in the splitting of the payment to circumvent authority levels;
- The amount of the duplicate payment and potential excess cost to the County;
- The payment transaction required a "T" override;
- The payment is approved in compliance with established authority levels;
- That payment transaction supporting documentation demonstrates appropriate segregation of duties; and
- Whether the payment transaction was issued as a result of potential fraud.



## **Findings**

The audit findings are summarized below:

Transactions Audited	200
Total Paid	\$234,530.07
Split Payments Identified	0
Duplicate Transactions Identified	4
Amount of Duplicate Payments	\$803.63
Transactions Not Requiring "T" Release	17
Transactions Potentially Lacking Appropriate Authority Level	0
Transactions Potentially Lacking Appropriate Segregation of Duties	0
Transactions Identifying Potential Fraud	0

The two largest duplicate payments were for \$317.48 and \$260.90, which were payments issued to two photocopy service companies. These duplicate payments were caused by the same invoices being processed twice. Though the system identified the duplicate, TPA staff applied a manual release causing the duplicate payments. The TPA has been notified and will either recover the overpayment from the photocopy companies or reimburse the County. The second largest duplicate payment, in the amount of \$156.50, was issued to a physical therapy facility. That payment was caused because the same medical charges were processed twice. Though the system identified the potential duplicate, TPA staff applied a manual release causing a duplicate payment. The TPA has been notified and will either recover the overpayment from the medical provider or reimburse the County. The final duplicate payment was for \$68.75 and issued to the pharmacy benefit management company twice for the same dispensed medications. The TPA has been notified and will either offset future medical mileage reimbursement payments to the injured worker or reimburse the County.

## **SUMMARY**

Though the audit did not identify any fraud or abuse, it did find that TPA staff are applying "T" overrides on transactions that do not require them. CEO Risk Management Branch staff found 8.5 percent of the payment transactions audited did not require "T" overrides. This practice, done to expedite benefit delivery, weakens internal controls and may result in duplicate payments and unwarranted costs. TPA management has been notified of these findings and will provide additional training to staff.

The CEO is committed to reducing Program fraud exposure through the continuous improvement of processes. A multi-disciplined approach that includes TPA management and the evaluation of new technologies is required. CEO staff will be meeting quarterly with TPA management to identify improvements in business process monitoring with due consideration given to benefit delivery needs.

Each Supervisor  
July 21, 2015  
Page 6

The CEO will provide another audit report to the Board in January 2016.

If you have any questions or would like additional information, your staff may contact Steven T. Robles, Assistant Chief Executive Officer/County Risk Manager, at (213) 351-5346.

SAH:JJ  
STR:AR:rn

c: Executive Office, Board of Supervisors  
County Counsel



SACHI A. HAMAI  
Chief Executive Officer

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January 15, 2016

Board of Supervisors  
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Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

To: Supervisor Hilda L. Solis, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: Sachi A. Hamai  
Chief Executive Officer

### **FOURTH STATUS REPORT – AUDIT OF WORKERS' COMPENSATION THIRD-PARTY ADMINISTRATION SERVICES**

On October 22, 2013, the Board approved a recommendation to find that workers' compensation claims third-party administration (TPA) services can be performed more economically by independent contractors. At that time, the Board instructed the Chief Executive Officer (CEO) to incorporate audit criteria which includes any known criminal activity, negligence, and overall contract compliance when evaluating TPA performance. Three audit reports have been submitted to the Board outlining the finding of financial potential duplicate payment audits. CEO is requesting a six-month extension for the next audit report. This extension is requested to allow for the post-implementation testing of a new workers' compensation claims administration system.

On November 9, 2015, the ClaimsVision workers' compensation claims administration system moved into production status. ClaimsVision is a relational database that provides greater flexibility and portability. The move to ClaimsVision should allow the CEO to smoothly transition to a comprehensive Risk Management Information System in the future. Though the migration to ClaimsVision delays the ability to perform the duplicate payment transaction audit, the system contains multiple upgrades that will improve separation of duty requirements and TPA fiscal auditing.

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Such system upgrades include:

- Electronic records of each user processing a payment transaction request.
- Identification of payment transaction requests that may result in a duplicate payment at the time of authorization.
- Identification of payment transaction requests that exceed the user's authority level at the time of processing.
- Limitation menu privileges based on user groups.
- Direct interface with the County's eCAPS system.

#### **Continued TPA Monitoring**

The CEO continues to monitor TPA payment processing daily and utilize a variety of quality control mechanisms. Approval levels continue to require at least two authorized individuals to release a workers' compensation payment transaction. The authority levels are:

- Payments up to \$4,000 require one authorization and a separate individual to release the transaction;
- Payments exceeding \$4,000 require two authorizations and a separate individual to release the transaction;
- Payments exceeding \$5,000 require three authorizations and a separate individual to release the transaction;
- Payments exceeding \$7,500 require four authorizations and a separate individual to release the transaction; and
- Payments exceeding \$75,000 require five authorizations and a separate individual to release the transaction.

### **On-Site County Representatives**

Currently, six On-Site County Representatives (OSCRs) are headquartered at TPA facilities. These County employees perform various functions. Their payment transaction audit and review functions include the following:

- Reviewing and authorizing payment transaction requests exceeding \$7,500;
- Evaluating and authorizing payment transaction requests initiated by a Workers' Compensation Appeals Board (WCAB) order or award;
- Performing fiscal reconciliation of all claims resolved by WCAB indemnity order, WCAB indemnity award, or indemnity payment requests exceeding \$7,500;
- Identifying and recovering costs associated with penalties, excess costs, or overpayments caused by the contractor's actions or failures to act as defined in the contract; and
- Identifying and investigating payment transactions that are potentially fraudulent and notifying CEO Risk Management Branch when such are identified.

### **Fiscal Reconciliation Process**

The fiscal reconciliation process, or claim file balancing, requires OSCRs to evaluate the workers' compensation award or order and ensure the past, present, and future benefit stream comports to the Court award or order. This process requires a careful review of indemnity benefits owed and paid, benefits currently being paid, and payments that will be issued in the future ("cycled" or system-generated payments). The reconciliation process includes calculating savings caused by an ordered commutation of benefits. Workers' compensation claim files that do not balance are returned to the TPA for correction or reimbursement.

The CEO will provide the Board another audit report in July 2016.

If you have questions or would like additional information, your staff may contact Steven T. Robles, Assistant Chief Executive Officer/County Risk Manager, at (213) 351-5346.

SAH:JJ  
STR:AR:rn

c: Executive Office, Board of Supervisors  
County Counsel



SACHI A. HAMAI  
Chief Executive Officer

## County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, California 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>

August 8, 2016

Board of Supervisors  
HILDA L. SOLIS  
First District

MARK RIDLEY-THOMAS  
Second District

SHEILA KUEHL  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

To: Supervisor Hilda L. Solis, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: Sachi A. Hamai  
Chief Executive Officer

### **STATUS REPORT – AUDIT OF WORKERS' COMPENSATION THIRD-PARTY ADMINISTRATION SERVICES**

On October 22, 2013, the Board approved a recommendation to find that workers' compensation claims third-party administration (TPA) services can be performed more economically by independent contractors. At that time, the Board instructed the Chief Executive Officer (CEO) to incorporate audit criteria which includes any known criminal activity, negligence, and overall contract compliance when evaluating TPA performance. This is the fifth bi-annual report to the Board reporting the fourth audit on existing TPA performance. The fourth report requested a six-month extension for the audit.

#### **Background**

The County of Los Angeles (County) Workers' Compensation Program (Program) was established under the authority of County Code Section 5.31.050. A Program mandate is to ensure the full provision of benefits under the law to employees whose injuries arise out of, and in the course of, employment. The Program is the largest local agency workers' compensation program in the State of California, which issues approximately 500,000 payment request transactions annually. The Program is bound by a complex set of statutory, regulatory, and case law requirements that complicate claims administration and present inherent system risks.

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### **Background** (Continued)

A variety of quality control mechanisms are implemented to evaluate TPA performance, protect the County from improper payments initiated by TPA staff, and ensure adequate separation of duties. Payment transaction system functions are separated to require at least two individuals to release a payment transaction. Approval levels require at least two authorized individuals to release a workers' compensation payment transaction.

The following authorization requirements apply to workers' compensation benefit payment transactions:

- Payments up to \$4,000 require one authorization and a separate individual to release the transaction;
- Payments exceeding \$4,000 require two authorizations and a separate individual to release the transaction;
- Payments exceeding \$5,000 require three authorizations and a separate individual to release the transaction;
- Payments exceeding \$7,500 require four authorizations and a separate individual to release the transaction; and
- Payments exceeding \$75,000 require five authorizations and a separate individual to release the transaction.

### **On-Site County Representatives**

Currently, six On-Site County Representatives (OSCRs) are headquartered at TPA facilities. These County employees perform various functions. Their payment transaction audit and review functions include the following:

- Reviewing and authorizing payment transaction requests exceeding \$7,500;
- Evaluating and authorizing payment transaction requests initiated by a Workers' Compensation Appeals Board (WCAB) order or award;
- Performing fiscal reconciliation of all claims resolved by WCAB indemnity order, WCAB indemnity award, or indemnity payment requests exceeding \$7,500;
- Identifying and recovering costs associated with penalties, excess costs, or overpayments caused by the contractor's actions or failures to act as defined in the contract; and
- Identifying and investigating payment transactions that are potentially fraudulent and notifying CEO Risk Management when such are identified.



### **Fiscal Reconciliation Process**

The fiscal reconciliation process, or claim file balancing, requires the OSCRs to evaluate the workers' compensation award or order and ensure the past, present, and future benefit stream comports to the Court award or order. This process requires a careful review of indemnity benefits owed and paid, benefits currently being paid, and payments that will be issued in the future ("cycled" or system-generated payments). The reconciliation process includes calculating savings caused by an ordered commutation of benefits. Workers' compensation claim files that do not balance are returned to the TPA for correction or reimbursement.

### **Random Transaction Audit**

The purpose of the random transaction audit is to select and review individual payment transactions that may be split (to circumvent payment authority levels) or represent duplicate payments (payments issued to the same payee with overlapping service dates) to ensure payment process controls are being systematically applied, ensure the individual payment is appropriate (not split or a duplicate payment caused by the inappropriate application of a "T" override), and identify potential fraud or abuse executed by TPA staff.

### **Methodology**

During the period of November 10, 2015 and May 20, 2016, Tristar (Unit B) issued 40,798 payments totaling \$22,992,513.30. CEO Risk Management identified 95 transactions as potential duplicate payments using the claims administration system. Each payment transaction was audited to evaluate compliance with established protocols, unintended excess cost to the County, or TPA fraud. During the audit, CEO Risk Management staff reviewed payment transactions to determine the following:

- The payment transaction was appropriate and did not result in a duplicate payment;
- The payment transaction was appropriate and did not result in the splitting of the payment to circumvent authority levels;
- The amount of the duplicate payment and potential excess cost to the County;
- The payment was approved in compliance with established authority levels;
- That payment transaction supporting documentation demonstrated appropriate segregation of duties; and
- Whether the payment transaction was issued as a result of potential fraud.



## **Findings**

The audit findings identified \$682.15 of duplicate payments which represent \$29.67 for every \$1,000,000 of payments issued. The duplicates were primarily caused by the same invoice being processed twice and did not represent any fraud or circumvention of the established system security protocols. Recovery of the excess charges is in process and the TPA is contractually obligated to reimburse the County.

## **SUMMARY**

The CEO is committed to reducing Program fraud exposure and excess costs through the continuous improvement of processes and the deployment of advanced analytics. A multi-disciplined approach that includes TPA management and the deployment of new technologies is ongoing. The Workers' Compensation claims system business rules have been modified to increase protections that will lead to eliminating duplicate payments. However, by the next audit report, CEO Risk Management staff will:

- Audit the revised duplicate payment business rules to verify their effectiveness and make additional modifications as necessary.
- Create and deploy audit point analytics that identifies excess costs associated with processing Workers' Compensation transactions, including duplicate payments.
- Meet with TPA management to identify improvements in business process and to recover excess costs in accordance with the contract.
- Provide additional training to TPA staff on the identification of potential duplicates in ClaimsVision prior to payment approval.

CEO Risk Management will provide another audit report to the Board in January 2017.

If you have any questions or would like additional information, your staff may contact Steven T. Robles, Assistant Chief Executive Officer/County Risk Manager, at (213) 351-5346.

SAH:JJ  
STR:AR:RAH:AN:rn

c: Executive Office, Board of Supervisors  
County Counsel



SACHI A. HAMAI  
Chief Executive Officer

## County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, California 90012  
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<http://ceo.lacounty.gov>

January 20, 2017

To: Supervisor Mark Ridley-Thomas, Chairman  
Supervisor Hilda L. Solis  
Supervisor Sheila Kuehl  
Supervisor Janice Hahn  
Supervisor Kathryn Barger

From: Sachi A. Hamai  
Chief Executive Officer

Board of Supervisors  
HILDA L. SOLIS  
First District

MARK RIDLEY-THOMAS  
Second District

SHEILA KUEHL  
Third District

JANICE HAHN  
Fourth District

KATHRYN BARGER  
Fifth District

### **FINAL STATUS REPORT – AUDIT OF WORKERS' COMPENSATION THIRD-PARTY ADMINISTRATION SERVICES**

On October 22, 2013, the Board approved a recommendation to find that workers' compensation claims third-party administration (TPA) services can be performed more economically by independent contractors. At that time, the Board instructed the Chief Executive Officer (CEO) to incorporate audit criteria which includes any known criminal activity, negligence, and overall contract compliance when evaluating TPA performance. This is the sixth and final bi-annual report to the Board, reporting the fifth audit on existing TPA performance. The fourth report requested a six-month extension for the audit.

#### **Background**

The County of Los Angeles (County) Workers' Compensation Program (Program) was established under the authority of County Code Section 5.31.050. A Program mandate is to ensure the full provision of benefits under the law to employees whose injuries arise out of, and in the course of, employment. The Program is the largest local agency workers' compensation program in the State of California, which issues approximately 500,000 payment request transactions annually. The Program is bound by a complex set of statutory, regulatory, and case law requirements that complicate claims administration and present inherent system risks.

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### **Background** (Continued)

A variety of quality control mechanisms are implemented to evaluate TPA performance, protect the County from improper payments initiated by TPA staff, and ensure adequate separation of duties. Payment transaction system functions are separated to require at least two individuals to release a payment transaction. Approval levels require at least two authorized individuals to release a workers' compensation payment transaction.

The following authorization requirements apply to workers' compensation benefit payment transactions:

- Payments up to \$4,000 require one authorization and a separate individual to release the transaction;
- Payments exceeding \$4,000 require two authorizations and a separate individual to release the transaction;
- Payments exceeding \$5,000 require three authorizations and a separate individual to release the transaction;
- Payments exceeding \$7,500 require four authorizations and a separate individual to release the transaction; and
- Payments exceeding \$75,000 require five authorizations and a separate individual to release the transaction.

### **On-Site County Representatives**

Currently, six On-Site County Representatives (OSCRs) are headquartered at TPA facilities. These County employees perform various functions. Their payment transaction audit and review functions include the following:

- Reviewing and authorizing payment transaction requests exceeding \$7,500;
- Evaluating and authorizing payment transaction requests initiated by a Workers' Compensation Appeals Board (WCAB) order or award;
- Performing fiscal reconciliation of all claims resolved by WCAB indemnity order, WCAB indemnity award, or indemnity payment requests exceeding \$7,500;
- Identifying and recovering costs associated with penalties, excess costs, or overpayments caused by the contractor's actions or failures to act as defined in the contract; and
- Identifying and investigating payment transactions that are potentially fraudulent and notifying CEO Risk Management when such are identified.

### **Fiscal Reconciliation Process**

The fiscal reconciliation process, or claim file balancing, requires the OSCRs to evaluate the workers' compensation award or order and ensure the past, present, and future benefit stream comports to the Court award or order. This process requires a careful review of indemnity benefits owed and paid, benefits currently being paid, and payments that will be issued in the future ("cycled" or system-generated payments). The reconciliation process includes calculating savings caused by an ordered commutation of benefits. Workers' compensation claim files that do not balance are returned to the TPA for correction or reimbursement.

### **Random Transaction Audit**

The purpose of the random transaction audit is to select and review individual payment transactions that may be split (to circumvent payment authority levels) or represent duplicate payments (payments issued to the same payee with overlapping service dates) to ensure payment process controls are being systematically applied, ensure the individual payment is appropriate, and identify potential fraud or abuse executed by TPA staff.

### **Methodology**

During the period of May 1, 2016 through November 9, 2016, Tristar Risk Management (TPA for Unit B) issued 42,508 payments totaling \$22,048,529.64. CEO Risk Management identified a sampling of 100 transactions as potential duplicate payments using the claims administration system. Each payment transaction was audited to evaluate compliance with established protocols, unintended excess cost to the County, or TPA fraud. During the audit, CEO Risk Management staff reviewed payment transactions to determine the following:

- The payment transaction was appropriate and did not result in a duplicate payment;
- The payment transaction was appropriate and did not result in the splitting of the payment to circumvent authority levels;
- The amount of the duplicate payment and potential excess cost to the County;
- The payment was approved in compliance with established authority levels;
- That payment transaction supporting documentation demonstrated appropriate segregation of duties; and
- Whether the payment transaction was issued as a result of potential fraud.



## **Findings**

The audit findings identified \$934.00 of duplicate payments which represent \$42.36 for every \$1,000,000 of payments issued. The duplicates were primarily caused by the same invoice being processed twice and did not represent any fraud or circumvention of the established system security protocols. Recovery of the excess charges is in process and the TPA is contractually obligated to reimburse the County.

The audit findings also identified one transaction that was missing the backup documentation for mileage reimbursement to a claimant in the amount of \$254.11. A determination could not be made for this transaction.

## **SUMMARY**

The CEO is committed to reducing Program fraud exposure and excess costs through the continuous improvement of processes and the deployment of advanced analytics. A multi-disciplined approach that includes TPA management and the deployment of new technologies is ongoing. The Workers' Compensation claims system business rules have been modified to increase protections that will lead to eliminating duplicate payments.

This is the final audit report to the Board, unless otherwise directed.

If you have any questions or would like additional information, your staff may contact Steven T. Robles, Assistant Chief Executive Officer/County Risk Manager, at (213) 351-5346.

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County Counsel